ERGEG Consultation on Pilot Framework Guideline on Gas Balancing Rules on European Gas Transmission Networks
AEP[1] Comments

The Association of Electricity Producers in the UK welcomes the opportunity to comment on this consultation. We welcome ERGEG's work in this area which is a key part of facilitating trade within and across Member States and a vital step toward market integration and the development of a fully competitive market across the EU.

Where appropriate we provide comments to the specific questions listed below:

Problem identification, scope, definitions, purpose, policy objectives and compliance

Question 1: Do you agree that the problems identified in the problem identification chapter are the main ones? Are there additional problems that should be addressed within the gas balancing pilot framework guideline?

The Association agrees that the main problems have been identified; namely the different balancing regimes within and between Member States can act as a barrier to cross border trade and to new entrants. We note that other important issues such as capacity allocation and congestion management are being addressed via other Framework Guidelines and comitology procedures. Other issue that may need to be considered include; gas quality variations between networks, consistency of units and currencies for cashout / trading.

Question 2: Do you agree with the scope (section 1) and objectives (section 3) of this pilot framework guideline? Are there policy issues that should, but are not currently addressed by the draft document?

The Association agrees with the scope and objectives. We also support the development of a target model with interim steps which takes some account of differences in current regimes, maturity of networks and operational limitations. It may also be necessary in some circumstances to contemplate derogations; either allowing

[1]The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

variations from the target model and interim steps or simply providing more time to achieve these steps.

Question 3: In your view, should the European network code for gas balancing lead to an amendment of national balancing rules? If so, how detailed should the European target model be?

The Associations would expect the European network code to lead to changes to national balancing rules, unless the current rules already comply with the code or derogations have been granted.

The Association fully supports the definition of an EU-wide target model and would expect it to be sufficiently detailed to ensure that, once fully implemented, the objectives will be achieved. That said we recognise that the greater the level of detail of the code, the more difficult it may be to fully implement. It will be necessary to ensure that compliance will reduce barriers to trade and the costs of implementation should be justified by the benefits. Consistent with this, the target model could include 'must – do' features and desirable features, which distinguishes between those issues which are essential for reducing barriers to cross border trade and those which are less so.

Question 4: Do you agree with the approach of defining a target model for the network code and allowing interim steps subject to NRA approval?

We support this approach since it gives a clear indication of the balancing model and principles that should be achieved. We also acknowledge that different Member States are starting from different positions with respect to the target model; for some there may be little or no change required whilst for others substantial change will be necessary. In some cases there may be very real technical constraints to be addressed whilst in others there may simply be a nervousness about taking steps towards a market-based balancing framework. Interim steps are a pragmatic step towards the target model for those Member States where substantial change will be necessary.

Question 5: What timescale is needed to implement the provisions in the target model outlined in Part II after the network code is adopted? Is 12 months (as in section 10) appropriate or should it be shorter or longer?

The Association considers that 12 months is appropriate where only very minimal change is required, but longer will be needed where more substantial change is required. This should be subject to NRA approval. It may be appropriate to require a plan for meeting the interim steps and target model within 12 months of the network code being adopted.

The UK has market-based balancing rules and has had for some time, but these have evolved over time. Previously the TSO bought and sold balancing gas on a balancing platform where it was the counterparty to each trade and the trades were physical. Whilst now, the TSO uses the wholesale market to buy and sell title gas, which creates price-driven incentives on shippers to balance. The TSO can also buy / sell physical and locational gas on the wholesale market but these products are rarely used. These developments were accompanied by improvements in information provision to shippers and have led to improved shipper balancing and consequently a smaller residual role for the TSO. However these changes were not made quickly and each stage required a degree of trust and confidence in the market to respond appropriately. We therefore consider that realistic timescales need to be defined for these changes which may need to vary between Member States or regions depending on the starting point.

Question 6: Should the pilot framework guideline be more specific regarding the purpose and policy objectives for network codes (section 3), in particular areas including nomination procedures?

The Association is not convinced it is necessary or desirable to standardise the nomination procedures in order to meet objectives. However we recognise there may be merits in this at interconnection points between balancing zones or Member States where coordinated capacity allocation and congestion management procedures are being contemplated.

The Association would caution against being too prescriptive over nomination procedures as these could impact trading, competition and shipper self-balancing which may in turn lead to a greater role for TSO balancing. Restriction in nominations for CCGTs may also compromise their ability to track electricity demand and respond to changing levels of intermittent renewable generation, particularly wind.

Question 7: With reference to section 3 (proposed policy objectives), do you have comments on how Article 21 of the Gas Regulation 715/2009 should be reflected in the gas balancing network code?

The requirements of Article 21 seem to be adequately reflected in section 3.

The role of network users and TSOs

Question 8: Is it necessary to have a harmonised approach to the network user and TSO roles regarding gas balancing?

The Association considers the roles should be harmonised to the extent necessary to reduce barriers to cross border trade. We support the proposal for the code to make network users primarily responsible for balancing with the TSO having only a residual role to balance the system within safe operational limits.

Question 9: What are your views on the proposals for the target model to be reducing the need for TSOs to undertake balancing activities?

The Association considers that market participants should have sufficient information available to them to understand their own balance position and that of the system as a whole. Within an appropriate cashout framework this should encourage market participants to balance, leaving only a residual balancing role for the TSO. This does, however, assume that market participants have sources of flexible gas available to them and are able to access these cost-effectively, but, in such circumstances, market participants facing competitive pressures are likely to be able to trade to manage imbalances more cost effectively than the TSO.

Also whilst perhaps outside of the scope of these Framework Guidelines it should be noted that balancing actions by the TSO can be influenced by other issues including incentives.

Question 10: Is it appropriate for the target model to impose within-day constraints on network users? If so, should such constraints be imposed on all network users or only on certain groups of network users? If within-day constraints should only be imposed on certain groups of network users, which ones are these? How could this be justified?

We do not believe that within-day constraints should be imposed in a daily balancing regime except where the safe operation of the physical system may be jeopardised. Any within – day constraints that are applied should be related to the technical parameters of the system and necessary to maintain system safe operation and integrity. However such constraints may well be set under 'system stress' conditions which would imply that such constraints may not be necessary or may be relaxed under normal operating conditions. Where this is the case, the TSO should have reasonable endeavours obligations to provide a more flexible service, only enforcing the within-day constraints when necessary for system safety and integrity reasons. Where within-day constraints are necessary these should be subject to scrutiny by the NRA and should be applied in a fair and non-discriminatory manner, with any charges being cost reflective. It may also be the case that within-day constraints may not relate to users staying in balance within certain limits but to the way in which offtakes change from initial nominations. Such constraints may give the TSO more confidence and certainty over system operation whilst perhaps being slightly less onerous for users than having to balance within the balancing period.

A useful example here may be that, in the UK, many large offtakes from the transmission system (CCGTs) have within-day restrictions detailing the maximum ramping rate in MW/min and certain notice periods (in hours) for changes in offtake rate as a percentage of the maximum. These parameters are specific to each offtake and relate to the system capability such that the changes in offtake can be provided under

virtually all operating conditions. However, the vast majority of the time, the system is able to support changes in offtake at shorter notice.

Question 11: Is balancing against a pre-determined off-take profile a useful interim step?

This may be a useful interim step where wholesale markets are still developing.

Question 12: Should TSOs have the option to sell flexibility provided by the gas transmission pipelines system (linepack) subject to the NRAs' approval? If so, should this be mandatory?

In principle, the TSOs should have this option so long as the sale of any such product is beneficial to the market as a whole, does not undermine market-based flexibility products, does not lead to increased balancing activity by the TSO, does not create within day constraints and is provided in a cost-reflective manner. However it can also be argued that the TSO should retain linepack for its own use and should use it to avoid it taking balancing actions. We have concerns that the disaggregation and sale of linepack may lead to inefficiencies in its use. There also seems to be potential differences in understanding over what selling linepack means and it may be helpful if this is defined more clearly. Is it the sale of some spare space in the network which the user may utilise or not and therefore effectively a tolerance? Or is it the sale of some space which the user must use on a given day? Clearly, if the former, the aggregate quantity for sale must be limited to that which the TSO feels it will not need for normal operational purposes.

The sale of linepack may have a role in less mature markets as an interim step where there is limited access to other flexibility; however it may be better to provide a tolerance so that the TSO still manages overall system imbalance in aggregate.

We do not consider the sale of linepack should be mandatory.

Question 13: Should the target model enable TSOs to provide tolerances to market participants for free or should this be an interim step?

The Association recognises that providing free tolerance reduces the incentives on users to balance their portfolios and therefore considers this should be an interim step. Tolerances may be particularly useful to new entrants who may not immediately be able to secure sources of flexible gas, but tolerances should be provide on an equal basis to all users.

The daily balancing regime in the UK initially had tolerances but these have been progressively removed as participants have more confidence in traded markets and sources of within day flexibility.

TSO obligations on information provision

Question 14: Are there any additional information requirements that you believe should be included? In particular, should the pilot framework guideline oblige TSOs to provide information beyond the requirements set out in the revised Article 21 and Chapter 3 of Annex 1 to Regulation (EC) No 715/2009 (as recently approved through comitology)? If so, please provide details?

The Association expects the information provision, as defined in the recently agreed changes to Annex 1, to be adequate. However it is always appropriate to review such issues in the light of experience of operating under a new regime. Any further information requirements should be tested against market needs and how such information would be used. Caution should be practiced in case of inappropriate commercial advantage or disadvantage being a consequence. Commercial confidentiality should be preserved.

Question 15: What are the benefits and disadvantages of TSOs providing network users with system information?

Network Users will gain a greater understanding of how the system operates, TSO balancing actions, supply/ demand fluctuations and how the market responds to this through the provision of system information. Users will also need to understand their own imbalance in relation to the system and likely cashout that they face. Such information will promote confidence and trust in the system operator which should support trading in the market to manage supply and demand and imbalance.

Question 16: What are the costs of TSOs providing network users with system information? How do these compare against the benefits and/ or disadvantages?

We would expect the TSO to already have access to the information that it is required to release, so the cost involved should only relate to releasing that to participants. The benefits should generally exceed the costs although they may not be readily quantifiable. For example, we would expect improved shipper balancing and a reduced role for the TSO although this will also emerge as a consequence of users being able to access sources of flexible gas.

Balancing periods

Question 17: What are your views on our assessment of the policy options?

The Association considers that the impact assessment document provides a comprehensive and balanced assessment of the options.

Question 18: Are there relevant additional policy options on balancing periods which have not been considered in this section? Should these be considered going forward?

We consider that other options would be likely to increase complexity and it would be preferable to stay with the options as described.

Question 19: Is it necessary to harmonise balancing periods? If so, what are the benefits of a regional or pan-European harmonised balancing period? If not, why is it not necessary? Please explain your answer.

The Association considers it desirable to harmonise balancing periods across the EU as a day and for the balancing period to start at a common time. This should facilitate cross border trade and avoid the potential for arbitraging imbalances between balancing zones. We recognise that this amounts to a significant change to the existing situation even in Member States that currently have a daily regime if the start of the period were to be set at a different time. It will therefore be important to examine the costs of moving to such a model, potentially exploring other options such as TSOs managing the difference in the start of the gas. It may also be that some Member States can progress toward this and align with their neighbours more rapidly than others. Nevertheless we see value in setting this as the target model otherwise the direction of change may diverge from this aim and the benefits of a more integrated market may never be realised.

It may also be the case that the definition of this target might assist the merging of small balancing zones into larger ones, which in itself may lead to improved liquidity in wholesale markets.

Question 20: If you agree with a harmonised balancing period, what do you consider is the appropriate length of the balancing period?

We believe a day strikes the right balance between potential within-day constraints and providing users sufficient opportunity to balance their portfolios.

Question 21: Do you agree with the target model? (Please explain your answer).

The Association supports a daily balancing period with imbalances cashed out and set to zero at the end of the period.

We do however have significant reservations over allowing within-day constraints, where these amount to sub-daily balancing, rather than technical ramping parameters to be part of the target model. We believe such features should be part of the interim steps and that any associated cashout charges that relate to within day imbalances should be cost reflective rather than penalty charges. As described in our response to question 10.

In addition it may be necessary to allow the TSO to contract with providers of short notice physical gas e.g storage or demand side response to enable market balancing to be supported by physical gas services under certain circumstances where the market does not respond quickly enough or maintenance of safe system pressures is in jeopardy. In the UK we have Operating Margins that fulfil this role, they are rarely used but provide the TOs with assurance that safe operation can be maintained in certain operating conditions. This service is not used for normal balancing requirements and the TSO is incentivised to reduce the overall cost.

Question 22: What would be the costs of implementing the target model in (and beyond) your Member State or balancing zones(s) (as the case may be)?

The UK already has a daily balancing regime, so the TSO and users have systems to support this. However costs would be incurred if the standard day were to be different from that currently used not only for system but also in reviewing contracts. As a point of detail, consideration would also need to be given as to how daylight savings time is managed across the EU and whether the standard gas day recognises this or not

TSO buying and selling of flexible gas and balancing services

Question 23: Do you agree with our assessment of the policy options?

The impact assessment provides a robust yet balanced assessment of the policy options.

Question 24: Do you agree with the target model? (Please give reasons). If so, what do you consider are the benefits and disadvantages of the target model?

The Association generally supports the target model, but has reservations over the use of balancing platform where a liquid wholesale market exists. We cannot see the benefit of this but accept it may be a useful interim step where there is limited liquidity in the wholesale market or as the first step towards establishing market based balancing where there have previously been tenders or long term contracts for balancing gas.

The benefits of the target model arise from transparency of the TSOs' actions and the setting of imbalance charges based on these actions. Also the TSO participating in a competitive market alongside network users will lead to more competition in the provision of balancing services which should lead to more cost reflective charges based

on the status of the system on the day. This model will also ensure that flexibility that may be available to the market is not unduly reduced through longer term tenders or bilateral contracts with the TSO. The wholesale market may also be able to provide within-day products and locational physical gas. It may also facilitate the provision of balancing services from other balancing zones.

The disadvantage of this model is that it is a significant change from the current arrangement on many Member States and may be seen as unachievable. However, as above, we feel it appropriate to set a target to ensure that incremental developments are consistent with the target and to avoid further divergence of regimes. There may also be an ongoing need for the TSO to reserve some balancing gas in storage or LNG or as demand side response in order to manage the risk of non-delivery by the market and to meet the safety requirements of network operation (see comment regarding operating margins in response to question 21).

Question 25: What are the costs of implementing the target model in your Member State?

The cost of implementing the target model would be minimal in the UK, but there could be some costs if the additional products or services are defined by ENTSO-G.

Question 26: What interim steps, if any, may be needed in your Member State or balancing zone(s)?

Not needed in the UK

Question 27: Is it appropriate for balancing platforms to be part of the target model subject to NRA approval, even where markets are sufficiently liquid to enable TSO procurement on wholesale markets?

No, we can see no case for balancing platforms where there are sufficiently liquid wholesale markets, retaining a balancing platform would only reduce liquidity in the wholesale market. However there may be an argument for both to be available to the TSO for a limited time.

Question 28: Is it appropriate for TSOs to procure balancing services on the wholesale market and/or or is appropriate for these to be procured on the balancing platform? Should TSOs be permitted to reserve long-term contracts for flexible gas and/ or associated capacity for this purpose?

The Association believes it is appropriate for TSOs to procure balancing services on the wholesale market - this model works well in the UK. A second preference would be for a

balancing platform and both of these provide greater transparency of TSOs' actions and support market-based cashout charges. However it may be necessary for the TSO to also enter into long-term contracts for flexible gas to be able to ensure the safe operation of the system, but this should not undermine wholesale markets nor cross-border trade.

Question 29: In your view is it possible in your market to reduce TSOs' reliance on long-term products? If so, how may this be best achieved?

In the UK, the TSO uses a market platform for normal daily balancing purposes. It only utilises long term products to manage specific situations of system stress (operating margins). As a general principle, incentivising TSOs against the cost and use of long – term products should reduce reliance on them.

Imbalance Charges

Question 30: Do you agree with our assessment of the policy options?

Yes we agree with the assessment of policy options.

Question 31: Do you agree that methods for calculating imbalance charges should be harmonised? If so please explain what the benefits may be. If not, please explain why not.

We consider there should be benefits to harmonising imbalance charges in terms of supporting cross-border trade, and reducing potential incentives to move imbalances between different Member States or balancing zones

Question 32: What are your views of the target model? In particular, please provide your views on:
- Whether an imbalance charge should be applied when TSOs do not take balancing actions;
- What the imbalance charge should be based on, if it is applied when the TSO has not taken a balancing action, whether imbalance charges should be dual or single priced;
- Whether imbalance charges should be based on the marginal price.

The Association broadly supports the target model, in particular the use of cashout charges based on the marginal price of actions taken by the TSO where the user has contributed to the system imbalance. In such circumstances we consider it appropriate that users with a balance position offsetting the system imbalance should be cashed out at price reflective of the benefit / risk mitigation to the system, this may be the wholesale market price. It has been the subject of much debate in the UK whether an uplift should

be applied to this market price and how it should be determined in order to maintain cost reflectivity. Some guidance of which cost elements should be included to make any uplift cost reflective would be helpful. We have no experience of a regime where no uplift is applied but there may be merits in this approach and we understand the debate presented in the impact assessment which argues that If those that are out of balance but are 'helping' the system are still incentivised to come back into balance then this could require more, rather than less, balancing action by the TSO.

When no balancing actions are taken by the TSO, we consider a neutral imbalance charge based on the wholesale price should be applied to the user imbalances so that their imbalance is reset to zero. We note the discussion in section 11.3 regarding the possible application of an uplift to this charge and the balance to be struck between cost-reflectivity and incentivising users to balance, we agree with the points made and would like to add that the risk of the TSO taking a balancing action and setting a marginal cashout price at any time during the balancing period also creates an incentive on users to balance. We are also sceptical as to whether any price derived from the possible sale of linepack would be cost-reflective given the relative difference between the net imbalance of users and the sum of absolute imbalances.

Question 33: What would be the costs and benefits of implementing your preferred options in your Member State?

The costs would be relatively small in the UK.

Question 34: What are your views on the interim steps in the document?

The interim steps appear to provide a practical route towards more market based and therefore cost-reflective cashout charges, as opposed to arbitrary penalty charges that seem to prevail in some markets.

Cross-border cooperation

Question 35: Are there any other relevant policy options on cross-border cooperation that should have been included in this section?

The assessment included a wide range of options

Question 36: Do you agree with our assessment of the policy options in this section?

The Association agrees with the assessment of policy options and supports the recommendations, whilst noting the importance of progress in this area to the development of a more integrated EU gas market, but cautioning against being too prescriptive at this stage.

Question 37: Are Operational Balancing Accounts (OBAs) useful to deal with steering differences? Should the network code make it mandatory on TSOs to put in place OBAs

The Association agrees OBAs are useful and supports the proposal.

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